

## AIG's Secret Bailout Partners – AIG Bailout Funds Funneled To Secret Partners – Partial List Of Cash Recipients Released

Posted on March 7, 2009 by mcauleysworld

### A list obtained by Fortune includes the names of many foreign banks – as well as U.S. giants such as Goldman Sachs.

NEW YORK (Fortune) — Donald Kohn, vice chairman of the Federal Reserve, learned this week about blackmail, Senate style, when he refused to disclose the names of financial institutions benefiting from the bailout of American International Group.

Testifying about AIG (AIG, Fortune 500) before the Senate Banking committee, Kohn respectfully resisted all of its attempts to extract the names. Several committee members grew frustrated and finally got to the point of threatening Kohn with no more dollars for the credit crisis – ever – if he didn't spill the information.

*Said Sen. Jim Bunning, R-Ky., "You will get the biggest 'no' you ever got. I will do anything possible to stop you from wasting the taxpayers' money on a lost cause."*

While the government has maintained that saving AIG was necessary to prevent an even wider catastrophe, Senators contend the move has also *bailed out counterparties who took unwise risks*, so the legislators want to know who those companies are.

The information that riled the Senate committee this week concerns about \$80 billion of *credit default swaps – contracts that insure investors against losing principal and interest* – that AIG wrote on super-senior tranches of *collateralized debt obligations (CDOs)* that were *backed by mortgage securities, some of them subprime*. [70% of mortgage defaults in the US involve subprime loans - to be accurate the author should have said - 30% were not subprime]

When AIG suffered rating downgrades, the resulting collateral calls on the credit default swaps proved ultimately to be much more than AIG could handle and *became the main reason the company was bailed out* [the main reason the company went under - AIG could not pay the "insurance losses" on bad mortgages]- with government commitments that now exceed \$150 billion.

The counterparties to the swaps were *25 financial institutions spread around the world*. Many of them would have been vulnerable to a domino effect if they hadn't received, first, the collateral AIG paid them and, later, *billions of dollars from the U.S. government that made the counterparties whole*. [The full list of "Counterparties" is not known - as all names have not been released. Billions of American Taxpayer Dollars paid to make foreign Banks whole and reimburse bad bets on risky subprime mortgages]

In this whole disaster that began to play out last September, neither AIG nor the government has ever divulged the names of the counterparties – and that's what infuriates Bunning and other senators. [The following list is not exhaustive - a complete list of the beneficiaries has not been released - contact Congress and demand that a complete list be made public! How many Politicians in Washington were "made whole" with taxpayer dollars? <http://www.usa.gov>Contact/Elected.shtml> , Demand that a full list of names be released - financial institutions, hedge funds & holding companies]

## Fed wants to keep AIG secrets

*Committee chairman Christopher Dodd, D-Conn., describes the counterparties as less than “innocent victims” who used AIG’s rating (then AAA) to take “enormous, irresponsible risks.” He complains, “It is not clear who we are rescuing.” [Senator Dodd needs to step up and take responsibility - he has headed this Committee the last two years - isn’t it his job to know where this money is going?]*

The Fed’s Kohn argued that he couldn’t give out the names because the counterparties had entered into contracts with AIG not expecting their identity ever to be disclosed. Naming them, he said, might deter them from doing business with AIG again. *[Assuming of course that AIG survives. At present AIG is liquidating its profitable businesses]*

In the end, however, Kohn said he would carry the committee’s request back to the Fed and see what might be worked out.

A reliable source, however, has given FORTUNE a list of 15 counterparties, with no dollar figures attached. The list contained the names in the following order. FORTUNE sought comment from all of the financial institutions and none said their inclusion on the list was inaccurate.

### **FORTUNE LIST (Foreign Companies Highlighted in red)**

Société Générale (France)  
Goldman Sachs (GS, Fortune 500)

Merrill Lynch International

Deutsche Bank (Germany)

Calyon, Crédit Agricole (France)

UBS (Switzerland)

Barclays (England)

Coral Purchasing, DZ Bank (Germany)

Bank of Montreal (Canada)

Rabobank (the Netherlands)

Royal Bank of Scotland

Bank of America

Wachovia

HSBC (England)

Barclays Global Investors

[McAuley's World: It appears that Billions of American Taxpayer dollars have been spent on bailing out foreign banks who took foolish risks investing in subprime loans].

<http://money.cnn.com/2009/03/07/news/companies/aig.fortune/index.htm>

**NEW YORK (Fortune) —** Officials shouldn't reveal which Wall Street firms pocketed billions of dollars in the government's bailout of AIG, a top Federal Reserve official said.

*The comment was met with incredulity by senators who said the government must do a better job explaining how its actions over the past six months have benefited all Americans, and not simply troubled big companies and their trading partners. AIG has received more than \$150 billion in federal aid since its brush with bankruptcy last fall. Sen. Bob Corker, R-Tenn., asked why policymakers didn't simply guarantee that the government would stand behind AIG's obligations, without producing any upfront cash.*

Kohn insisted that the Fed didn't have the authority to do so, a claim Corker said he found "simply incredible."

[http://money.cnn.com/2009/03/05/news/fed.transparency.fortune/index.htm?  
postversion=2009030512](http://money.cnn.com/2009/03/05/news/fed.transparency.fortune/index.htm?postversion=2009030512)

## Top U.S., European Banks Got \$50 Billion in AIG Aid

*The names of all of AIG's derivative counterparties and the money they have received from taxpayers still isn't known, but The Wall Street Journal has identified some of them and is publishing others here for the first time.*

- *Goldman Sachs*
- *Deutsche Bank*
- *Merrill Lynch*
- *Société Générale*
- *Calyon*
- *Barclays*
- *Rabobank*
- *Danske*
- *HSBC*
- *Royal Bank of Scotland*
- *Banco Santander*
- *Morgan Stanley*
- *Wachovia*
- *Bank of America*
- *Lloyds Banking Group*

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*Other problems are popping up for AIG. The insurer generated a sizable business helping European banks lower the amount of regulatory capital required to cushion against losses on pools of assets such as mortgages and corporate debt. It did this by writing swaps that effectively insured those assets. <http://online.wsj.com/article/SB123638394500958141.html>*

**Values of some of those assets are declining, forcing AIG to also post collateral against those positions. And if the portfolios incur losses, AIG will have to compensate the banks. [or, in the alternative AIG could declare bankruptcy like any previous insolvent insurer]**

**AIG had seen this business as a relatively safe bet for the company and its investors. /"Safe" - AIG was only "off" by \$180 Billion - close enough for Government work, right? /- The structures were designed to allow European banks to shuck aside high capital costs. A change in capital rules has meant that the AIG protection no longer meets regulatory requirements.**

**The concern has been that if AIG defaulted, banks that made use of the insurer's business to reduce their regulatory capital, most of which were headquartered in Europe, would have been forced to bring \$300 billion of assets back onto their balance sheets, according to a Merrill report. [Yes, that means American Taxpayer Dollars are being used to prop up the European Banks]**

A top official tells Congress he opposes unmasking the Wall Street firms that have pocketed tens of billions of dollars in taxpayer bailout funds.

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## **Revealed: 15 AIG bailout counterparties**

**A list obtained by Fortune includes the names of many foreign banks - as well as U.S. giants such as Goldman Sachs.**

By Carol J. Loomis, senior editor at large  
Last Updated: March 9, 2009; 10:55 AM ET

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Said Sen. Jim Bunning, R-Ky., "You will get the biggest 'no' you ever got. I will do anything possible to stop you from wasting the taxpayers' money on a lost cause."

Why so much fuss over these names? While the government has maintained that saving AIG was necessary to prevent an even wider catastrophe, senators contend the move has also bailed out counterparties who took unwise risks, so the legislators want to know who those companies are.

While *The Wall Street Journal* Saturday reported many of the names of the 25 counterparties involved, FORTUNE has independently obtained a somewhat different group of 15 names, listed in an intriguing order (see below).

The information that riled the Senate committee this week concerns about \$80 billion of credit default swaps - contracts that insure investors against losing principal and interest - that AIG wrote on super-

senior tranches of collateralized debt obligations (CDOs) that were backed by mortgage securities, some of them subprime. (See The Company that Came to Dinner, FORTUNE, Jan. 19).

When AIG suffered rating downgrades, the resulting collateral calls on the credit default swaps proved ultimately to be much more than AIG could handle and became the main reason the company was bailed out - with government commitments that now exceed \$150 billion.

The counterparties to the swaps were 25 financial institutions spread around the world. Many of them would have been vulnerable to a domino effect if they hadn't received, first, the collateral AIG paid them and, later, billions of dollars from the U.S. government that made the counterparties whole.

In this whole disaster that began to play out last September, neither AIG nor the government has ever divulged the names of the counterparties - and that's what infuriates Bunning and other senators.

Committee chairman Christopher Dodd, D-Conn., describes the counterparties as less than "innocent victims" who used AIG's rating (then AAA) to take "enormous, irresponsible risks." He complains, "It is not clear who we are rescuing."

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What is the significance of the rank order of the list? Since it is not alphabetical, one possible interpretation is that the banks are listed in order of the amount of CDOs they insured with AIG.

Goldman Sachs' No. 2 position fits several press reports that it was an important counterparty, perhaps having insured \$20 billion of CDOs with AIG. Goldman has never confirmed that figure, but it has said that its "net" exposure to AIG - after collateral it received and hedging it did - was minimal.

If indeed France's Société Générale ranks No. 1 by exposure, it's a distinction the bank certainly didn't need. Early last year, the company was staggered by the news that a rogue trader had lost \$7.5 billion. Had a domino effect ensued from AIG's collapse, Société Générale would have been in an especially vulnerable position.

The Fed's Kohn admitted in the Senate hearings that paying off these counterparties in the course of the AIG rescue "will reduce their incentive to be careful in the future," which helps explain why the names have become such sought-after information in the political debate over "moral hazard."

A transcript of Thursday's hearings that was done by Congressional Quarterly contains a typo that nicely describes the whole disastrous mess that AIG has turned out to be for U.S. taxpayers. The speaker was New York superintendent of insurance Eric Dinallo, and what he said was, "AIG is a microcosm of our regulatory regime."

But the transcript says not "microcosm," but "microchasm." And that's what AIG has proved to be, a money pit of gaping proportions. ■

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